ARBOR MEMORIAL SERVICES INC.

ANNUAL REPORT **2001**

COMPANY PROFILE ARBOR MEMORIAL SERVICES INC. ("ARBOR" OR THE "COMPANY") IS AN ONTARIO CORPORATION WHICH, THROUGH WHOLLY-OWNED SUBSIDIARIES, IS ENGAGED IN PROVIDING INTERMENT RIGHTS, CREMATIONS, FUNERALS AND ASSOCIATED MERCHANDISE AND SERVICES TO CUSTOMERS ACROSS CANADA. IT OWNS 40 CEMETERIES, 27 CREMATORIA AND 92 FUNERAL HOMES (INCLUDING 5 PARTIALLY-OWNED FUNERAL HOMES) IN COMMUNITIES IN EIGHT PROVINCES OF CANADA. THE COMPANY'S CEMETERIES AND FUNERAL HOMES HAVE BEEN DEVELOPED TO PROVIDE SERVICES TO MANY ETHNIC AND RELIGIOUS GROUPS IN CANADA. THE CEMETERY PROPERTIES RANGE IN SIZE FROM APPROXIMATELY 25 TO 180 ACRES AND ARE STAFFED BY PERMANENT MAINTENANCE, ADMINISTRATIVE, AND SALES PERSONNEL.

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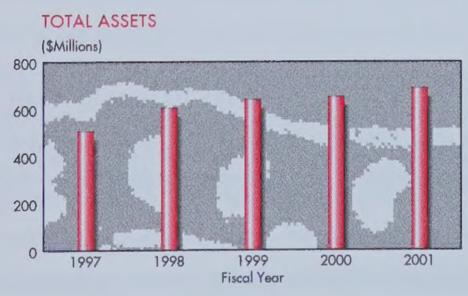
Cover Image: "Rubbing of a Han Dynasty clay tomb tile (detail) depicting a leopard".

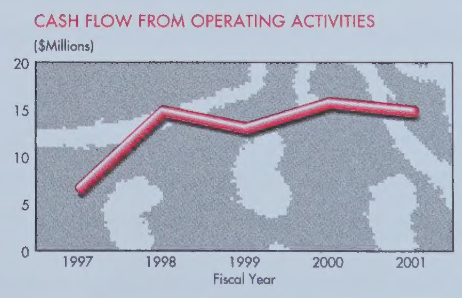
COMPANY HIGHLIGHTS

YEARS ENDED OCTOBER 31	2001	2000
		(Restated)
OPERATIONS		
Revenue *($000)*	168,510	160,009
Earnings from operations before other income (expenses) *($000)*	24,073	21,224
Net earnings *($000)*	7,193[1]	6,746[1]
Cash flow from operating activities *($000)*	14,874	15,777
PER SHARE DATA		
Earnings *($ per share)*	0.68[1]	0.64[1]
Cash flow from operating activities *($ per share)*	1.40	1.49
Weighted average number of shares outstanding *(000)*	10,595	10,594
MAJOR RESOURCES		
Cemeteries	40	40
Crematoria	27	27
Funeral homes[2]	92	95
Care funds *($000)*	106,379	99,451
Total assets *($000)*	685,151	656,219

(1) *Net earnings in 2001 excluding the after-tax effect of other income (expenses) were $8.2 million or $0.77 earnings per share (2000 – $6.5 million or $0.61 earnings per share).*

(2) *Arbor wholly owns 87 of the 92 funeral homes and has interests ranging from 40% to 48% in the remainder.*





REPORT TO SHAREHOLDERS

FINANCIAL PERFORMANCE

In the midst of a major North American and global economic slowdown, we are pleased to report that Arbor Memorial Services Inc. achieved record revenue and earnings in 2001.

- Record total revenue of $168.5 million, up 5% from 2000.
- Record cemetery sales of $76.4 million, up 2% from 2000.
- Record funeral sales of $79.9 million, up 7% from 2000.
- Record investment income of $11.7 million, up 25% from 2000.
- Record earnings before income taxes of $17.3 million up, 11% from 2000.
- Excluding other income (expenses), earnings per share increased to $0.77 from $0.61 in 2000.

The above results reflect an August 23, 2001 announcement that the Company would be changing its revenue recognition policies, primarily with respect to pre-need cemetery sales, on a retroactive basis in the fourth quarter of 2001. The announcement was made after consideration of the guidelines in the United States (U.S.) Securities and Exchange Commission's Staff Accounting Bulletin No. 101 ("SAB 101") and the Ontario Securities Commission's ("OSC") Staff Notice 52-701. While SAB 101 is a U.S. pronouncement, the OSC has endorsed the guidelines as representing Canadian generally accepted accounting practices in the absence of any other specific reference to authoritative literature or established practice.

The changes to the Company's revenue recognition policies are consistent with the policies recently adopted by several U.S. public companies in the cemetery and funeral industry.

OTHER DEVELOPMENTS

- In December 2000, Service Corporation International (Canada) Ltd. ("SCI Canada") withdrew a court application commenced in August 2000 in the Ontario Superior Court of Justice seeking an order to wind-up the Company, divide its assets between its two principal shareholders, SCI Canada and Scanfield Holdings Ltd., and cause the purchase of the remaining shares for fair value. At the time of the court application, SCI Canada owned 38% of the Company's Class A Voting Shares and 65% of the Company's Class B Non-Voting Shares for an aggregate holding of 59% of total shares.

- In August 2001, Service Corporation International announced the sale of its equity interest in Arbor to a group of Canadian investors. This is viewed as a very positive development as the threat of a break up of the Company has been eliminated, and the Company's major shareholders are strongly committed to Arbor's long-term growth and enhancement of shareholder value.

  Under the influence of strong financial performance, the withdrawal of SCI Canada's court application, and the subsequent sale of its interest in Arbor, the Company's share price increased significantly.

OCTOBER 31		2001	2000	% Change
Market Price:	Class A Voting	$12.00	$5.55	+ 116%
	Class B Non-Voting	$12.50	$7.00	+ 79%

- Pre-need funeral sales achieved a new record of $37.9 million, up 19% from 2000. Since these sales are not included in the Company's reported revenue until the funerals are performed, pre-need sales have no immediate impact, but build future market share and enhance future financial performance. The total undelivered pre-need funeral sales and associated investment income accumulated at the end of 2001 were $236.8 million, the equivalent of 3.0 years of current year funeral sales.

- As a result of the changes made in 2001 due to the implementation of SAB 101, the Company now also defers certain pre-need cemetery revenue. This deferred revenue totaled $257.9 million at the end of 2001, which represented an increase of $9.7 million or 5% over the prior year. This balance is equivalent to 3.4 years of current year cemetery sales. Total pre-need cemetery contracts written in the year were a record $55.6 million, up 6% over 2000.

- In 2001, the Company and the Ontario Association of Cemeteries participated in the Bereavement Sector Advisory Committee which was convened by the Ontario Ministry of Consumer & Business Services. We are hopeful that this initiative will lead to regulatory changes under the Funeral Directors Establishment Act and the Cemeteries Act to allow funeral homes to be located on cemetery property. Currently, Ontario and Prince Edward Island are the only provinces that prohibit funeral homes from being located on a cemetery property. Combining a funeral home and a cemetery provides important consumer benefits, improves cost efficiency, and has proven to be very successful for Arbor in the rest of the country. Ontario is a critical market for Arbor as 20 of the Company's 40 cemeteries are located in the province.

- In 2001, the Company continued its program of divesting under-performing assets. Specifically, one funeral home was closed and the business consolidated at another location, two funeral homes and an apartment building were sold, and the divestiture process is underway on two parcels of surplus land.

OUTLOOK

The market for your Company's services has grown consistently in the past, and is expected to grow at an even faster rate in the future due to the growth of the over 65 age group, the Company's primary market.

Arbor is uniquely positioned to participate in the growth of the total market and increase its market share. Our objective is clear and unchanging - to provide superior funeral and cemetery services that exceed customer expectations. Arbor is the only company with a national presence in both the funeral and cemetery sectors of the industry. The Company has over 1,500 employees across Canada whose talent, training, hard work and dedication have been critical to our success over the years. We thank them for their continued support and contribution to our business. We also thank you, our shareholders, for your continued support. There's never been a better time to be a part of Arbor Memorial Services Inc.

On behalf of the Board,

Richard D. Innes
President & Chief Executive Officer

ACCOUNTING POLICY CHANGE

In 2001, the Company implemented the recommendations of the United States Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") based on the Ontario Securities Commission Staff Notice 52-701. The implementation of SAB 101 required the Company to change its revenue recognition polices as follows:

- sales of pre-need cemetery interment rights are now recognized when a minimum percentage of the interment right selling price has been received in cash;
- sales of pre-need cemetery merchandise and services and associated trust investment earnings are deferred until the merchandise is delivered or the service is performed; and
- costs incurred in contract acquisition ("obtaining costs"), that vary with and are directly related to the acquisition of new pre-need cemetery and funeral business, are deferred and recognized when the underlying interment rights, merchandise and services are recognized in revenue.

Previously, all pre-need cemetery revenue was recognized when the contract was signed and the definition of obtaining costs included additional expense items. In addition, obtaining costs related to the cemetery division were expensed as incurred to match the recognition of pre-need cemetery revenues.

The changes made as a result of the implementation of the new revenue recognition policies had no impact on the cash flows of the Company, however, the adjustments made resulted in a cumulative charge to retained earnings as of November 1, 1999 of $77.4 million or $7.31 per share. The changes also reduced 2001 net earnings and earnings per share by $15.8 million and $1.49 respectively. The 2000 earnings and earnings per share were similarly reduced by $6.7 million and $0.63 respectively. The reduction in the 2001 earnings was particularly large since the Company's provision for income taxes before the adjustments for SAB 101 reflected a $9.8 million (2000 – $2.2 million) credit due to the expected reduction in federal and provincial tax rates. This credit was reversed as a result of the adjustments for SAB 101 since the Company no longer had a large net future income tax liability.

The adjustments made also resulted in a significant increase in deferred revenue. The Company had deferred cemetery interment rights, merchandise and services revenue, along with associated investment income at October 31, 2001 of $257.9 million (2000 – $246.8 million). This revenue represented 3.4 years (2000 – 3.3 years) of current cemetery sales and will be recognized in future periods when the interment rights and merchandise are delivered or the services are performed.

Excluding the impact of SAB 101, the 2001 and 2000 statements of earnings would have been presented as follows:

($000)	2001	2000
Revenues:		
Sales	163,997	155,597
Investment income	15,669	13.011
	179,666	168,608
Expenses	147,912	140,489
Earnings from operations before other income (expenses)	31,754	28,119
Net earnings	23,024	13,411
Basic earnings per share	$2.17	$1.27
Earnings per share before other income (expenses) and the effects of the new income tax standard	$1.33	$1.04

The implementation of SAB 101 was treated as a change of accounting policy in accordance with CICA Handbook section 1506. As a result, SAB 101 was implemented on a retroactive basis with restatement of previously issued financial statements for 2001 and 2000.

RESULTS OF 2001 AND 2000 CONSOLIDATED OPERATIONS

Revenue

Consolidated revenue for the year ended October 31, 2001 was $168.5 million. This represented an increase of $8.5 million or 5.3% over 2000 revenue of $160.0 million. The following table provides a breakdown of revenue by source:

	2001		2000	
	($000)	*%*	*($000)*	*%*
Cemeteries	76,404	45.3	75,109	46.9
Funeral homes	79,866	47.4	74,932	46.8
Corporate	517	0.3	604	0.4
Total sales	156,787	93.0	150,645	94.1
Investment income	11,723	7.0	9,364	5.9
	168,510	100.0	160,009	100.0

Consolidated sales for 2001 were $156.8 million, representing an increase of $6.1 million or 4.1% over 2000. Cemetery sales increased by $1.3 million or 1.7% while funeral sales increased by $4.9 million or 6.6%. Excluding the adjustments made to the 2001 and 2000 sales for SAB 101, the Company achieved an average annual sales increase of 6.7% over the last five years.

In 2001, the Company sold two funeral homes and an apartment building for cash proceeds of $0.4 million while in 2000, the Company sold four cemeteries, three funeral homes and a parcel of land for proceeds of $2.2 million. The Company also opened two new funeral homes in 2000. Excluding the new and sold cemeteries and funeral homes from both the 2001 and 2000 results, consolidated sales would have increased by $6.0 million or 4.0% over 2000.

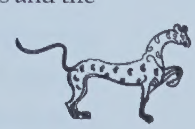
Investment income for the year ended October 31, 2001 increased by $2.4 million or 25.2% compared to 2000. This was the result of an increase in care fund income due to an increase in the average funds on deposit, an increase in pre-need cemetery and funeral fees and improved earnings of companies in which the Company owns an equity interest.

Expenses and Earnings from Operations Before Other Income (Expenses)

Operating expenses increased in 2001 by $5.1 million or 4.0% and were 84.4% of sales compared to 84.5% in the prior year. Operating expenses in the cemetery division increased by $2.6 million or 3.7% over 2000 while operating expenses in the funeral division increased by $2.5 million or 4.3%. These increases were largely due to the higher sales volume.

General and administrative expenses increased by $0.6 million or 5.1% over 2000. As a percentage of total revenue, these expenses were 7.2% for the current and preceding years.

Earnings from operations before other income (expenses) increased by $2.8 million or 13.4% from 2000. This was largely the result of the gross margin earned on the additional $6.1 million in sales and the higher investment income.



Other Income (Expenses)

The loss on sale of fixed assets in 2001 of $0.1 million is the net result of $0.2 million in losses on the sale of the assets of two funeral homes and an apartment building, offset by $0.1 million in gains on the sale of fixed assets in the normal course of business. The gain on sale of fixed assets in 2000 of

$0.2 million was due to the sale of fixed assets in the normal course of business. While the Company sold four cemeteries, three funeral homes and a parcel of land in 2000, the net loss on the sale of these assets was provided for in the 1999 financial statements.

In 2001, the Company identified impairment in the carrying value of a parcel of land and a funeral home that was closed and merged with another funeral home in the year. As a result, the Company recorded a provision for asset impairment of $1.0 million.

In 2000, the Company received Notices of Reassessment in respect of the resolution of certain prior years' income taxation matters and accordingly recorded a credit of $0.5 million in net earnings for the 2000 fiscal year.

Interest Expense, Income Taxes, Net Earnings and Earnings Per Share

Interest expense in 2001 decreased by $0.6 million or 9.4% from 2000. This was due to lower floating interest rates in the year and a reduction in the average long-term debt balance outstanding compared to the prior year. The average rate of interest on long-term debt for the year was 5.8% compared to 6.2% in 2000. The average long-term debt balance decreased by $3.0 million, largely due to repayments on debt other than the bank term loans.

The Company's effective tax rate for 2001 was 58.5% compared to 56.8% in 2000. Under the new accounting standard for income taxes, whereby the impact of a change in tax rates on future tax balances is included in income in the period of the change, the Company recorded a charge of $1.9 million and $0.3 million in 2001 and 2000 respectively. The impact that this had on the effective tax rate was offset by reductions in the current federal and provincial income tax rates and the utilization of loss carry-forwards.

Net earnings for the year increased $0.4 million or 6.6% compared to 2000. This translated to an increase of $0.04 per share, from $0.64 in 2000 to $0.68 in 2001. Excluding other income (expenses), net earnings in 2001 would have increased $1.7 million or 25.8% over 2000 and earnings per share would have increased $0.16 per share.

CEMETERIES

Cemetery sales in 2001 increased by $1.3 million or 1.7% over 2000, from $75.1 million to $76.4 million. The sales recognized in the year were made up of:

- at-need sales of interment rights, merchandise and services of $27.3 million (2000 – $26.7 million);
- pre-need sales of interment rights, at the point when a minimum percentage of the interment right selling price was received in cash, in the amount of $26.8 million (2000 – $26.7 million);
- pre-need sales of merchandise and services, at the point when the merchandise was delivered or the service was performed, of $19.9 million (2000 – $19.7 million); and
- other items, including income on pre-need trust funds, finance charge income and a cancellation allowance, that netted to $2.4 million (2000 – $2.1 million).

From a product sales perspective, the majority of the sales increase was attributable to higher sales of traditional burial lots, including a number of group sales sold on a pre-need basis. Two of these group sales for $1.1 million in total were at Valley View Memorial Gardens in Surrey, British Columbia and Pine Ridge Memorial Gardens in Ajax, Ontario.

The following table provides a percentage breakdown of the cemetery products and services sold in 2001 and 2000:

Cemetery Products and Services (Percentage of Sales)

	2001	2000
	%	%
Burial lots	19.9	19.0
Crypts and niches	24.7	25.7
Memorials	19.1	19.5
Services	15.5	15.1
Bases/monuments	10.5	11.0
Vaults and liners	4.9	4.2
Urns	5.4	5.4
	100.0	100.0

The cancellation expense increased from $1.8 million in 2000 to $1.9 million in 2001 and remained at approximately the same percentage of total cemetery sales for both years. Over the last five years, the cancellation rate on pre-need cemetery sales decreased by 1.4 percentage points before the adjustments for SAB 101 in 2000 and 2001.

Cemetery investment income increased by $0.6 million or 9.1% compared to 2000. Cemetery investment income is largely made up of care fund income and pre-need cemetery fees. This income increased in the year by $0.2 million and $0.3 million respectively. The increase in the care fund income was due to an increase in the care funds of $6.9 million or 7.0%. The rate of return on the care funds was reasonably consistent with 2000.

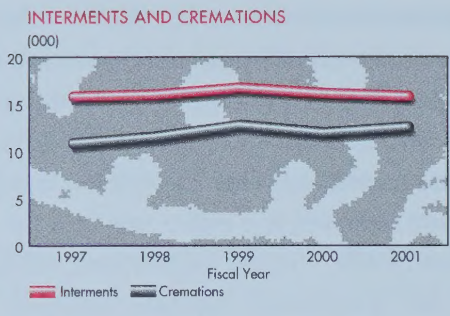
On a year over year basis, the gross margin on cemetery sales decreased by $0.1 million or 0.9 of a percentage point as a percentage of sales. The main reason for the decrease was a provision for slow-moving crypt and niche structures of $0.4 million recorded in the year compared to a provision of $0.1 million in 2000.

Selling and care and maintenance expenses increased by $0.8 million or 3.1% over 2000 as a result of the increased sales and level of activity at the properties as well as increased salaries and wages of administrative and care and maintenance employees in the normal course. As a percentage of sales, these expenses increased by 0.5 of a percentage point over the prior year since these expenses increased at a higher rate than the 1.7% increase in sales. Over the last five years, selling and care and maintenance expenses expressed as a percentage of sales have decreased by 4.1 percentage points prior to the adjustments for SAB 101 in 2000 and 2001.

Earnings from cemetery operations before other income (expenses) decreased by $0.7 million or 6.4% over 2000. The decrease was mostly attributable to the provision for slow-moving crypts and niches and a proportionately larger increase in selling and care and maintenance expenses relative to the increase in sales.

Due to the changes the Company made to its revenue recognition policies as a result of the implementation of SAB 101, the Company now defers certain pre-need cemetery revenue. This deferred revenue increased by $11.2 million or 4.5% over 2000, for a total of $257.9 million at the end of the year. The total undelivered pre-need cemetery revenue accumulated at the end of 2001 translated to 3.4 years of current year sales. This compares to 3.3 years at the end of 2000. Total pre-need cemetery contracts written in 2001, including interment rights, merchandise and services sales, totaled $55.6 million compared to $52.7 million in 2000, an increase of $2.9 million or 5.6%.

In 2001, the number of interments performed by the Company decreased by 0.9% to 16,040, however, the number of cremations increased by 4.5% to 12,666. As shown below, other than the year 2000, the Company has seen an increasing trend in cremation volume for a number of years.



FUNERAL HOMES

Funeral home sales increased by $5.0 million or 6.6%, from $74.9 million in 2000 to $79.9 million in 2001. The improvement was attributable to an increase in the number of funeral services performed as well as an increase in the average sale per funeral service at existing locations. Newly constructed operations, which have not operated for a full year in either fiscal 2001 or 2000, contributed $1.5 million to the increase while operations that were sold in the year accounted for a decrease of $1.1 million. In 2000, the Company constructed an on-site funeral home at Glen Lawn Memorial Gardens in Winnipeg, Manitoba and a stand-alone funeral home in Toronto, Ontario. There were no funeral homes constructed in 2001. The Company sold two funeral homes and closed another in 2001 and sold three funeral homes 2000.

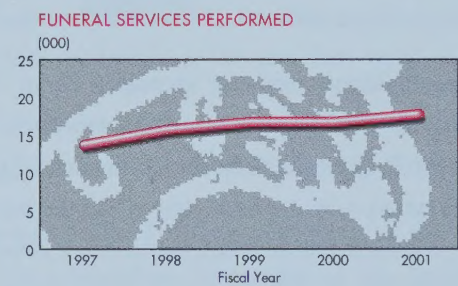
The following table shows the number of wholly-owned funeral homes operated by the Company in 2001 and 2000:

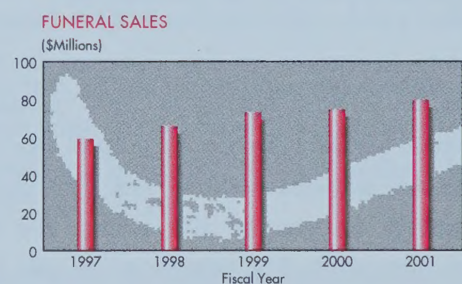
Number of Funeral Homes

	2001	2000
Funeral homes, beginning of year	90	91
Constructed funeral homes	-	2
Dispositions	(3)	(3)
Funeral homes, end of year	87	90

The number of funeral services performed at existing operations increased by 4.3%. Constructed funeral homes contributed 279 additional services while sold operations reduced the number of services by 253.

The average sale per funeral service performed at existing locations increased by $84 or 1.9%. This improvement was mostly a result of increasing the number of receptions held at the funeral homes and increasing the sales of ancillary products.





Investment income increased by $1.5 million due to an increase in the fees recognized from the deposit of pre-need funeral funds under the trust program and group annuity programs and due to higher earnings of the Company's partially-owned funeral homes. The increase in the fees is partially due to a 19.0% increase in the sales of pre-need funerals. In addition, the Company changed its main supplier of the group annuity programs near the end of fiscal 2000 and benefited from this new arrangement throughout 2001. The Company anticipates changing group annuity suppliers once again early in 2002 due to the withdrawal of its current supplier from the Canadian market.

Cost of sales increased by $0.9 million over 2000 due to the higher sales. As a percentage of sales, cost of sales was relatively consistent year over year.

Other operating expenses increased by $1.6 million or 3.5%. The increase was due to costs incurred to service the higher sales, normal increases in employee costs and higher costs for operations constructed in 2000.

Earnings from funeral operations before other income (expenses) increased by $4.0 million or 19.4%, from $20.6 million in 2000 to $24.6 million in 2001, due to increased sales and investment income but partially offset by increases in operating expenses.

The Company's focus on expanding pre-need funeral sales caused deferred revenue from pre-need funeral sales, along with associated investment income, to increase by $16.2 million or 7.4% over 2000, for a total of $236.8 million. The total undelivered pre-need funeral revenue accumulated at the end of 2001 translated to 3.0 years of current year sales, compared to 2.9 years at the end of 2000. Pre-need contracts written in 2001 totaled $37.9 million compared to $31.8 million in 2000, an increase of $6.1 million or 19.0%.

CORPORATE

Corporate revenue, which consists of rental income from leasing a portion of the Company's head office building and interest on the Company's bank accounts, short-term investments and mortgages receivable, was $1.0 million in 2001 compared to $0.8 million in 2000. The main reason for the increase was higher interest income as a result of the higher earnings and reduced capital spending.

Corporate expenses increased by $0.6 million or 5.1%, from $11.5 million in 2000 to $12.1 million in 2001. The increase was partially attributable to costs incurred in the year to improve the Company's cemetery database. These costs are not expected to recur in the same magnitude in the future. As a percentage of total Company revenue, corporate expenses remained constant at 7.2% for both the current and preceding years. Over the last five years, corporate expenses as a percentage of revenue have decreased by 0.5 percentage points prior to the adjustments for SAB 101 in 2000 and 2001.

CAPITAL EXPENDITURES AND ACQUISITIONS

During the year, the Company incurred capital expenditures of $6.4 million compared to $9.4 million in 2000, excluding new garden development and the replenishment of the crypt and niche inventory. Details of the capital expenditures by segment follow:

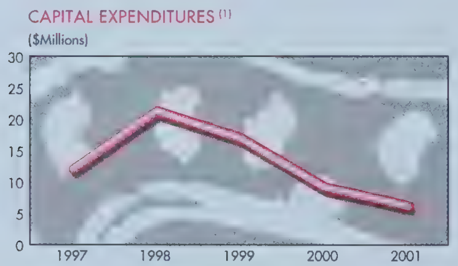
($ Millions)	2001	2000
Cemetery	2.3	2.2
Funeral	2.4	6.4
Corporate	1.7	0.8
	6.4	9.4

Cemetery expenditures in 2001 included $0.1 million for the development of Glenview Memorial Gardens, a new cemetery located in Toronto, Ontario. This cemetery is expected to open early in fiscal 2002.

Funeral expenditures in 2001 included $0.6 million for the development of funeral homes and funeral reception centres at a number of cemeteries including Hillcrest Memorial Gardens in Saskatoon, Saskatchewan, Glen Oaks Memorial Gardens in Oakville, Ontario, Victoria Memorial Gardens in Windsor, Ontario and Mount Lawn Memorial Gardens in Whitby, Ontario. These

funeral homes and reception centres are expected to be completed over the next several years.

The $1.7 million in corporate capital expenditures included $0.9 million for the development of a new information technology architecture that will integrate all of the Company's systems. The new architecture is expected to be implemented early in fiscal 2003 and the Company anticipates that the new system will be a source of competitive advantage well into the future. Another $0.3 million of the corporate capital expenditures was for a program called "The Director". This program will assist funeral home customers in making decisions with respect to their funeral merchandise and services sales contract.



(1) Excluding new garden development, replenishment of crypt and niche inventory and funeral home acquisitions.

Capital expenditures in 2001 were financed by cash generated from operating activities. The Company expects to spend $28.7 million on capital projects in 2002, including:

- $4.2 million to develop two reception centres;
- $2.3 million to develop a new off-site funeral home;
- $2.7 million for a combination funeral home and cemetery sales office at an existing cemetery;
- $3.7 million to replace one existing funeral home and renovate a second existing funeral home;
- $2.9 million for computer development;
- $2.0 million to purchase a parcel of cemetery land in Ontario; and
- $0.9 million to develop a new cemetery in Ontario.

New garden development and the replenishment of the crypt and niche inventory is essential to attaining cemetery sales targets. To this end, $2.1 million was spent in 2001 on crypts and niches (2000 – $2.7 million) and $0.8 million was spent on new garden development (2000 – $0.6 million). The $2.1 million spent on crypts and niches included $0.9 million for a mausoleum extension at Highland Memory Gardens and a new mausoleum at Glendale Memorial Gardens, both in Toronto, Ontario. The Company expects to spend $19.8 million on additional crypt and niche inventory in 2002, including:

- $11.7 million for the mausoleum at Glendale;
- $4.8 million for the mausoleum extension at Highland;
- $1.3 million for a new mausoleum at Glen Oaks Memorial Gardens in Oakville, Ontario; and
- $0.6 million for an interior niche building at White Chapel Memorial Gardens in Hamilton, Ontario.

The Company expects to spend $0.6 million on new garden development in 2002.

QUARTERLY INFORMATION

Quarterly financial information for each of the Company's eight quarters prior to October 31, 2001 is presented on page 33 of this annual report. This information is incorporated by reference herein.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities in 2001 was $14.9 million compared to $15.8 million in 2000, a decrease of $0.9 million or 5.7%. The decrease was

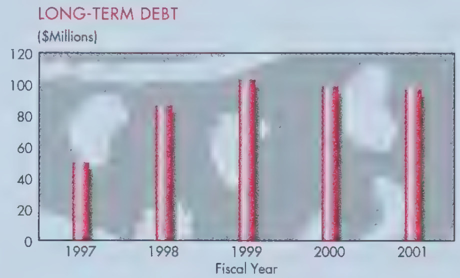
the net result of various changes in certain operating balance sheet items, the improvement in net earnings, a decrease in future income taxes and a decrease in the additions to crypts and niches year over year. Management believes that cash flow from operating activities in addition to cash on hand is sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets.

In prior years, the Company placed on deposit the funds necessary to reduce its ultimate exposure with respect to non-deductible interest and penalties for certain income taxation reassessments by various income taxation authorities. One of the matters under the reassessments was resolved in a prior year while another issue remains under discussion. The estimated balance remaining uncollected for the resolved matter was $1.1 million at October 31, 2001 and $2.1 million at October 31, 2000.

The second taxation issue that remains unresolved is related to reserves claimed for the sale of interment rights. In this regard, $6.3 million remains on deposit with the various income taxation authorities. The Company believes that it has substantial arguments to support its position, however, the deposit was made to limit the Company's exposure should it be unsuccessful. The Company is proceeding to have this issue adjudicated in the courts.

In 2000, the Company issued 6,000 Class B Non-Voting Shares for cash proceeds of $45,000 pursuant to exercised stock options. Proceeds from the issuance of these shares were used for general corporate purposes. No shares were issued in 2001. No stock options were granted in either 2001 or 2000, however, 2,000 and 1,200 options were cancelled in each year respectively.

Long-term debt at the end of 2001 was $97.3 million as compared with $99.2 million at the end of 2000. Of the $1.9 million decrease, $0.4 million was repaid on the bank term loans with the proceeds from the disposition of assets and $1.5 million was repaid on other debt. The Company has satisfied the debt covenants as defined in the provisions of its bank loan agreements but expects to re-negotiate the bank covenants in fiscal 2002 as a result of the changes to its revenue recognition policies.



At the end of 2001, the Company had entered into two interest rate swaps to reduce its exposure to interest rate fluctuations. The notional amount of the two swaps at the end of the year was $33.8 million compared to $38.2 million at the end of 2000. The result of the swaps was that interest rates for a portion of the Company's term loans were fixed at rates of 5.5% and 6.2% plus a bank margin. The swaps caused the Company's interest expense to be higher in 2001 by $0.3 million (2000 – $0.2 million) than would otherwise have been the case if the Company had maintained all floating rate debt. At October 31, 2001, the total unrealized loss with respect to the swaps was $2.1 million compared to an unrealized gain of $0.3 million at the end of 2000. It is management's intention to hold the swaps until their maturity in 2008.

Early in fiscal 2002, the Company entered into a third interest rate swap with a notional amount of $10.0 million. The interest rate on this swap

is 5.6% plus a bank margin and the year of maturity is 2007.

The Company's debt to equity ratio at October 31, 2001 was 0.94:1 compared to 1.02:1 at the end of 2000. The interest coverage ratio relative to earnings from operations before other income (expenses) for 2001 was 4.2 compared to 3.4 in 2000. These changes represent improvements of 7.8% and 29.4% respectively.

Accounts receivable arising from at-need funeral transactions were paid on average within 27 days for fiscal 2001 and within 29 days for fiscal 2000. Cemetery at-need accounts receivable at the end of 2001 represented 54 days of sales. The comparative number at the end of 2000 was also 54 days.

In 2001, instalment accounts receivable, which are now included under pre-need receivables, increased by $2.4 million or 3.6% over 2000. Approximately 53.1% of these accounts receivable relate to amounts to be placed in trust and sales tax, with the Company retaining the remainder. This percentage excludes amounts receivable in respect of merchandise to be purchased and stored in the future.

OUTLOOK

Arbor is uniquely positioned with a national presence in both the funeral and cemetery sectors of our industry. With this important competitive advantage, its established base of pre-arranged services at its cemeteries and funeral homes and demographic trends indicating a long-term increase in demand for its services, the Company believes that it is well positioned for future sales growth. The Company intends to continue construction of new cemeteries, funeral homes and reception centres and to expand existing locations where warranted. The establishment of funeral homes and reception centres at cemetery sites will be a priority.

In April 2001, the Ontario Ministry of Consumer and Business Services ("MCBS") formed a Bereavement Sector Advisory Committee ("BSAC") to make recommendations on how combinations (funeral homes located on cemetery property) might be permitted. The report was submitted to the Minister, MCBS in late November 2001. The Company was represented on the BSAC by a member of its senior management. Currently, Ontario and Prince Edward Island are the only provinces that do not allow funeral homes on cemetery property. If the Government changes the regulations, the Company will further enhance its ability to serve its customers. Twenty of the company's 40 cemeteries are located in Ontario.

In 2001, the Canadian Institute of Chartered Accountants ("CICA") adopted a new accounting standard for goodwill by revising section 3062 entitled "Goodwill and Other Intangible Assets". Under the new standard, goodwill will no longer be amortized on an annual basis. Instead, the Company is required to review its goodwill in relation to the fair value of each reporting unit to which goodwill applies and the value of other assets in that reporting unit. A provision is made for any goodwill that is considered impaired. This section is required to be applied for fiscal years beginning on or after January 1, 2002; however, early adoption is permitted for fiscal years beginning on or after April 1, 2001. The Company anticipates adopting the recommendations of this new standard effective for fiscal 2002.

In 2000, the Company determined that its current cemetery computer system was becoming incompatible with the increasingly faster hardware used to operate the system. Discussions with various information technology consultants revealed that at the anticipated rate of hardware improvement, support of the Company's cemetery

computer system would become increasingly difficult over the next two to three years. As a result, the Company hired consultants to assist in developing an information technology architecture across all of the Company's systems. In 2001, $0.9 million was spent on this project. The Company anticipates spending an additional $3.5 million in 2002 and 2003 and expects the system to be implemented early in 2003.

The Government of Saskatchewan proclaimed new cemetery and funeral legislation effective November 1, 2001. The new legislation changed the trust-funding requirement for pre-need funeral contracts from 100% to 85% of the selling price. The requirement for similar cemetery funding remained at 50%, however, the new legislation required that all income earned be retained in the funds until the contracts are delivered.

Environment Canada released new Canada wide standards in 2000 for allowable limits of air emissions. Recent pronouncements and events have indicated that provincial legislation will be harmonized with the federal standards once directives have been released by Environment Canada. The Government of Ontario is also in the process of designing new regulations for Ontario's crematoria and consumer advocates are encouraging significantly higher emission standards. It is unknown at this time how the harmonization will impact the crematoria operations of the Company.

In August 2000, Service Corporation International (Canada) Limited ("SCI Canada"), commenced an application in the Ontario Superior Court of Justice seeking an order to wind-up the Company, divide its assets among its two principal shareholders, and cause the purchase of the shares of the remaining shareholders for fair value. In December 2000, SCI Canada withdrew its application.

In August 2001, SCI Canada sold its shares in the Company to Fairfax Financial Holdings Limited, J.C. Clark Ltd., Newport Partners and McElvaine Investment Trust. The Company views this change in ownership as a positive development as the new shareholders are strongly committed to the Company's long-term growth and enhancement of shareholder value.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements, including the notes thereto, and other financial information contained in the annual report are the responsibility of the management of Arbor Memorial Services Inc. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board, which is comprised of non-management directors, meets with management and the auditors to satisfy itself that these responsibilities are properly discharged and to review the consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors, which approves the consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders of the Company, have audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards. The independent auditors have full and unrestricted access to the Audit Committee.

Richard D. Innes
President and Chief Executive Officer

Brian D. Snowdon
Vice-President and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Arbor Memorial Services Inc. as at October 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario
December 7, 2001

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED OCTOBER 31 *($000)*	2001	2000
		(Restated)
REVENUE		
Sales	156,787	150,645
Investment and other income (note 4)	11,723	9,364
	168,510	160,009
EXPENSES		
Operating	132,352	127,283
General and administrative	12,085	11,502
	144,437	138,785
EARNINGS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	24,073	21,224
OTHER INCOME (EXPENSES)		
(Loss) gain on sale of fixed assets (note 16)	(109)	158
Provision for asset impairment (note 16)	(950)	-
Interest and penalties on partial settlement of prior years' income taxes (note 11)	-	480
	(1,059)	638
EARNINGS FROM OPERATIONS	23,014	21,862
Interest expense	5,671	6,256
Earnings before income taxes	17,343	15,606
Income taxes (note 11)	10,150	8,860
NET EARNINGS	7,193	6,746
Retained earnings, beginning of year as previously reported	24,666	96,059
Change in basis of revenue recognition (note 2)	-	(77,397)
Retained earnings, beginning of year as restated	24,666	18,662
Dividends	742	742
RETAINED EARNINGS, END OF YEAR	31,117	24,666
BASIC AND DILUTED EARNINGS PER SHARE (NOTE 13)	0.68	0.64

CONSOLIDATED BALANCE SHEETS

AS AT OCTOBER 31 ($000)	2001	2000
		(Restated)
ASSETS		
Current assets		
Cash and cash equivalents	11,293	5,563
Accounts receivable	14,164	14,665
Income taxes receivable (note 11)	–	2,134
Merchandise inventories	9,906	9,322
Pre-need receivables, current portion (note 5)	35,927	35,681
	71,290	67,365
Income taxes on deposit (note 11)	7,437	6,288
Pre-need receivables (note 5)	341,003	305,832
Stored merchandise	10,469	10,444
Crypts and niches	21,806	25,546
Cemetery land		
- fully or partially developed	10,818	11,164
- held for future development	22,808	22,934
Fixed assets (note 7)	138,291	139,608
Goodwill – net of accumulated amortization of $11,035 (2000 – $9,926)	47,541	48,967
Future income taxes (note 11)	6,500	9,946
Other assets	7,188	8,125
	685,151	656,219
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	26,633	25,157
Income taxes payable	7	688
Amounts payable in respect of care funds (note 6)	6,430	6,764
Long-term debt, current portion (note 8)	570	1,424
	33,640	34,033
Deferred revenue (note 9)	447,593	423,801
Long-term debt (note 8)	96,768	97,748
Other liabilities	3,534	3,472
	581,535	559,054
SHAREHOLDERS' EQUITY		
Share capital (note 10)	72,499	72,499
Retained earnings	31,117	24,666
	103,616	97,165
	685,151	656,219

On behalf of the Board,

Daniel J. Scanlan, *Director*

Richard D. Innes, *Director*

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED OCTOBER 31 ($000)	2001	2000
		(Restated)
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net earnings	7,193	6,746
Add (deduct) items not affecting cash from operating activities:		
Depreciation and amortization	8,125	8,156
Loss (gain) on sale of fixed assets	109	(158)
Provision for asset impairment	950	-
Future income taxes	3,446	2,678
Additions to crypts and niches	(2,056)	(2,739)
Crypt and niche cost of sales	5,796	5,745
Net change in other operating balance sheet items (note 14)	(8,689)	(4,651)
	14,874	15,777
INVESTING ACTIVITIES		
Purchases of fixed assets	(6,398)	(9,357)
Additions to cemetery land	(831)	(612)
Proceeds on sale of fixed assets	661	2,304
	(6,568)	(7,665)
FINANCING ACTIVITIES		
Repayments of long-term debt	(1,834)	(4,150)
Dividends	(742)	(742)
Issue of shares (note 10)	-	45
	(2,576)	(4,847)
INCREASE IN CASH AND CASH EQUIVALENTS	5,730	3,265
Cash and cash equivalents, beginning of year	5,563	2,298
CASH AND CASH EQUIVALENTS, END OF YEAR	11,293	5,563
SUPPLEMENTARY INFORMATION		
Income taxes paid	7,579	8,971
Interest paid	5,773	6,518

1. NATURE OF OPERATIONS

Arbor Memorial Services Inc. (the Company) provides products and services in the death care industry in Canada. Through its subsidiaries, the Company offers a complete line of cemetery and funeral merchandise and services. As at October 31, 2001, the Company operated 40 cemeteries, 27 crematoria and 87 funeral homes and had interests in another 5 funeral homes.

The Company sells its cemetery and funeral products and services on both an at-need and a pre-need basis. The Company is required by provincial regulation to deposit specific amounts, received in respect of pre-need contracts, into trust pending the delivery of products and services. Upon delivery of the products and services, the Company is entitled to receive related amounts placed into trust and accumulated investment income thereon. In respect of interment rights, the Company is required to deposit into perpetual care trust funds amounts specified by provincial regulation. The investment income from the perpetual care funds is available to the Company to defray the costs of ongoing care and maintenance of cemeteries, mausolea and columbaria. The perpetual care trust funds are not assets of the Company.

2. CHANGE IN ACCOUNTING POLICY

Revenue Recognition

Based on the Ontario Securities Commission Staff Notice 52-701, the Company implemented the recommendations of the United States Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101) in fiscal 2001. As a result, the Company changed its accounting policies with respect to the timing of recognition of revenue on pre-need cemetery contracts and the recording of certain obtaining costs related to pre-need cemetery and funeral contracts. The changes were implemented on a retroactive basis with restatement of previously issued financial statements for 2001 and 2000.

The changes made were as follows:

i) Pre-need cemetery interment rights

Sales of pre-need cemetery interment rights and their related costs are deferred and recognized when a minimum percentage of the interment right sales price has been collected. Prior to this change in accounting policy, sales of pre-need cemetery interment rights were recognized at the date of the sales agreement.

ii) Pre-need cemetery merchandise and services

Sales of pre-need cemetery merchandise and services and related costs are deferred and recognized when the merchandise is delivered or the service is performed. Prior to this change in accounting policy, pre-need cemetery merchandise and services sales were recognized at the date of the sales agreement.

iii) Deferral of obtaining costs

Costs incurred to obtain new pre-need cemetery and pre-need funeral contracts are deferred and recognized when the underlying interment rights, merchandise and services are recognized in revenue. Deferred obtaining costs include only those costs that vary with and are directly related to the acquisition of new pre-need contracts. Previously, deferred obtaining costs related only to pre-need funeral sales and included both fixed and variable obtaining costs. Obtaining costs related to pre-need cemetery sales were expensed as incurred to match the related revenue recognition. Deferred obtaining costs are netted against the related deferred revenue on the balance sheet.

iv) Cemetery merchandise and services trust investment earnings

Investment earnings generated by assets in merchandise and services trusts are deferred until the associated merchandise is delivered or services are performed. Previously, the trust earnings were recorded when earned by the trust funds.

The changes made in the Company's accounting policies as a result of the implementation of SAB 101 resulted in a cumulative charge to retained earnings as of November 1, 1999 of $77.4 million or $7.31 per share. The changes also reduced 2001 and 2000 net earnings by $15.8 million and $6.7 million or $1.49 per share and $0.63 per share respectively. The 2001 and 2000 statements of earnings prior to adjusting for the impact of SAB 101 were as follows:

($000)	2001	2000
Revenues:		
Sales	163,997	155,597
Investment income	15,669	13,011
	179,666	168,608
Expenses	147,912	140,489
Earnings from operations before other income (expenses)	31,754	28,119
Net earnings	23,024	13,411

($ per share)	2001	2000
Earnings per share	2.17	1.27
Earnings per share excluding other income (expenses) and the effects of the new income tax standard	1.33	1.04

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company and all corporations that it controls. Investments in associated corporations, in which the Company has significant influence, are accounted for by the equity method.

Recognition of Revenue

Cemetery sales

Sales of at-need cemetery interment rights, merchandise and services are recognized as revenue at the date of delivery. Sales of pre-need cemetery interment rights and their related costs are deferred and recognized in earnings when a minimum percentage of the interment right sales price has been collected. Sales of pre-need cemetery merchandise and services and their related costs are deferred and recognized when the merchandise is delivered or the service is performed. Some contracts for the sale of pre-need cemetery interment rights are cancellable by the customer prior to delivery, estimates of the effect of which have been provided for at the date of sale based on historical experience.

Funeral sales

Sales of at-need funeral merchandise and services are recognized as revenue at the date of delivery. Sales of pre-need funeral merchandise and services and their related costs are deferred and recognized in earnings when the merchandise is delivered or the service is performed.

Investment and other income

A portion of the proceeds from the sale of cemetery interment rights is required by provincial law to be paid into perpetual care trust funds. Investment income related to these perpetual care trust funds is recognized as earned by the funds and is used to defray cemetery maintenance costs, which are expensed as incurred.

All or a portion of the proceeds from cemetery and funeral merchandise or services sold on a pre-need basis are either deposited in trust or with third-party insurers under group annuity programs, at the direction of the customer and to the extent required by provincial legislation. Investment income related to these merchandise and services funds is deferred and recognized when the merchandise is delivered or the service is performed.

The Company receives fees on the deposit of pre-need cemetery and funeral funds under the trust program and the group annuity programs. These fees are recognized as received, net of an allowance for those fees subject to refund.

Finance charges

Finance charges on the uncollected balance of instalment accounts receivable are collectible over the term of the sales agreement and are taken into income using the sum-of-the-digits method.

Valuation of assets and liabilities

Pre-need receivables

Pre-need receivables represent instalment accounts receivable due from customers related to pre-need cemetery and funeral contracts and amounts that will be received by the Company from trust or from third-party insurers under group annuity programs upon delivery or performance of pre-need cemetery or funeral merchandise and services.

Instalment accounts receivable are recorded net of unearned finance charges, a provision for cancellations and an allowance for doubtful accounts.

The amounts due from trust are recorded at cost, less a provision for loss in respect of individual investments where market value is below cost and this decline appears to be other than temporary. The amounts due to the Company under the group annuity programs represent the value that would be paid if the merchandise or services under the contracts were delivered or performed at the date of the balance sheet.

Inventories

Merchandise inventories are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Stored merchandise

Stored merchandise represents merchandise purchased on behalf of customers under pre-need cemetery contracts and stored by the Company until used by the customer. The merchandise is purchased upon payment in full of the portion of the sales agreement related to the merchandise to be stored.

Crypts and niches

Crypts and niches are carried at the lower of cost and net realizable value.

Cemetery land

Cemetery land is recorded at the lower of cost, which includes development costs, and net realizable value.

Fixed assets

Fixed assets are recorded at the lower of cost and net recoverable amount and are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	40 years
Equipment and furniture	10 years
Automotive equipment	7 to 10 years
Leasehold improvements	over term of lease
Other assets	3 to 25 years
Property under capital lease	40 years

Construction in progress is not depreciated until the fixed assets are put into operation.

Goodwill

Goodwill is recorded at cost and amortized on a straight-line basis over a period of forty years. The Company assesses the recoverability of the carrying value of goodwill each year on a location by location basis by reference to the underlying operating income of the location. A provision is recorded if the process indicates an impairment in the carrying value of goodwill that is other than temporary.

Deferred obtaining costs

Costs incurred to obtain new pre-need cemetery and pre-need funeral contracts are deferred and recognized when the underlying interment rights, merchandise and services are recognized in revenue. Deferred obtaining costs include only costs that vary with and are directly related to the acquisition of new pre-need contracts. Deferred obtaining costs are netted against deferred revenue on the balance sheet.

Income taxes

Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period of substantive enactment.

Diluted earnings per share

The calculations of diluted earnings per share include the potential issuance of shares under stock options that are dilutive. In determining whether options are dilutive or anti-dilutive, each issuance of options is considered separately using the treasury stock method.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

4. INVESTMENT AND OTHER INCOME

($000)	2001	2000
Care funds (note 6)	6,070	5,870
Pre-need funeral funds	3,724	2,502
Pre-need cemetery funds	1,013	666
Share of net earnings of associated corporations	430	144
Other	486	182
	11,723	9,364

5. PRE-NEED RECEIVABLES

The components of pre-need receivables are as follows:

($000)	2001	2000
Amounts due from cemetery trust funds	109,187	92,215
Amounts due from funeral trust funds	155,545	147,042
	264,732	239,257
Instalment accounts receivable	67,773	65,404
Amounts due from third-party insurers	44,425	36,852
	376,930	341,513
Less: current portion of instalment accounts receivable	35,927	35,681
	341,003	305,832

Trust funds held by third parties become available to the Company when the related merchandise and services have been delivered. Amounts due from cemetery and funeral trust funds consist of investments with fixed and floating interest rates and equity securities as follows:

($000)	2001	2000
Term deposits (fair value $159,400; 2000 – $146,500)	156,372	144,699
Bonds (quoted market value $91,060; 2000 – $77,466)	86,850	77,974
Equities (quoted market value $19,171; 2000 – $16,371)	18,501	16,584
Equity fund (quoted market value $2,985; 2000 – nil)	3,009	-
	264,732	239,257

Amounts classified as term deposits are invested over a period of 1 to 5 years (2000 – 1 to 5 years) at the prevailing rate of interest. The fair value of term deposits represents the discounted present value of principal and interest payments. The bonds have a weighted average maturity and interest rate of 5 years and 6.1% respectively (2000 – 5 years and 6.2%). Due to interest rate changes, the Company may realize gains and losses on the disposal of bonds if sold before their maturity.

Instalment accounts receivable are collectible as follows:

($000)	2001	2000
1st year	35,927	35,681
2nd year	17,258	15,784
3rd year	9,085	8,589
4th year	4,359	4,301
5th year and thereafter	1,144	1,049
	67,773	65,404

The fair value of the instalment accounts receivable at October 31, 2001 was $71.6 million (2000 – $66.8 million).

The carrying value of amounts due from third-party insurers approximates its fair value.

The Company enters into sales contracts with numerous consumers, including groups, but no one consumer or group accounts for a significant concentration of credit risk.

6. CARE FUNDS

Funds collected and set aside with third-party trustees for the care and maintenance of cemeteries total $106.4 million (2000 – $99.5 million) at carrying value and $112.2 million (2000 – $98.7 million) at quoted market value. The Company has the right to the income from these funds, which is included in investment income. The amounts payable of $6.4 million (2000 – $6.8 million) represent the uncollected portion of instalment accounts receivable which will become payable into trust upon collection of the receivable.

The care funds are invested in accordance with the Company's investment guidelines, which are established to comply with legislative requirements for such funds. The funds are generally invested in medium term government and corporate bonds, which are held to maturity and earn income at fixed rates of return.

7. FIXED ASSETS

	Cost		Accumulated depreciation and amortization		Net book value	
($000)	2001	2000	2001	2000	2001	2000
Land	32,632	32,723	-	-	32,632	32,723
Buildings	103,779	103,550	31,962	29,900	71,817	73,650
Equipment and furniture	34,976	33,201	25,648	23,711	9,328	9,490
Automotive equipment	18,265	18,574	13,310	12,685	4,955	5,889
Leasehold improvements	5,487	5,414	5,095	4,954	392	460
Other assets	21,202	19,956	6,319	5,459	14,883	14,497
Construction in progress	2,422	993	-	-	2,422	993
Property under capital lease	1,999	1,999	137	93	1,862	1,906
	220,762	216,410	82,471	76,802	138,291	139,608

8. LONG-TERM DEBT

($000)	2001	2000
Bank term loans due 2006 and 2007	94,163	94,573
Mortgages and notes payable due 2002 to 2004	1,215	2,629
Obligation under capital lease at 6.5%, due 2002 to 2008	1,960	1,970
	97,338	99,172
Less: current portion	570	1,424
	96,768	97,748

The weighted average interest rate on the mortgages and notes payable is 4.3% (2000 – 3.6%).

The Company's bank lines of credit consist of operating lines and revolving five year term loans subject to annual renewal aggregating $14.0 million (2000 – $14.0 million) and $125.0 million (2000 – $125.0 million) respectively. If not renewed, the term loans are automatically converted to a reducing term facility repayable in the following manner: (i) quarterly reductions equal to 1/40th of the outstanding amount of the facility commencing 15 months from the date of conversion; and (ii) repayment of the entire unpaid principal balance 4 or 5 years from the conversion date. The operating lines of credit are undrawn and are due on demand.

Security for the term loans consists of a floating charge and security interest over all assets of the Company except for fully or partially developed cemetery land, amounts included in pre-need receivables, crypts and niches and stored merchandise. Security for the operating lines consists of accounts receivable, instalment accounts receivable (net of amounts due to trust funds) and merchandise inventories. The operating lines rank senior to the term loans.

The bank loan agreements contain various restrictive covenants including: (i) maintenance of specific debt to cash flow and interest coverage ratios; (ii) limitation on the reduction of tangible net worth with respect to the payment of dividends and the acquisition by the Company of its own shares; (iii) restriction on the nature and amount of specific guarantees and additional debt; and (iv) consent for the disposition of the Company's real property.

The fair value of the Company's bank term loans approximates the carrying value given their floating rate nature. The carrying value of the remainder of the long-term debt is $3.2 million (2000 – $4.6 million) and the estimated fair value is $3.1 million (2000 – $4.4 million).

As of October 31, 2001, the Company's use of derivative financial instruments was limited to two (2000 – two) interest rate swaps with a Canadian chartered bank, whereby the Company has fixed that portion of its term loan financing at interest rates of 5.5% and 6.2% plus a bank margin. At the end of the year, these swaps had a total notional amount of $33.8 million (2000 – $38.2 million). The swaps are amortized quarterly on a straight-line basis and will be fully amortized in 2008. The remainder of the term loans are subject to floating interest rates based on Bankers' Acceptances.

The fair value of the interest rate swaps is estimated as the discounted unrealized gain or loss calculated based on the market price at October 31, 2001, which generally reflects the estimated amount that the Company would receive or pay to terminate the contracts at the balance sheet date. The estimated fair value of the interest rate swaps is a loss of $2.1 million (2000 – gain of $0.3 million). Losses due to non-performance by the counter-party are not anticipated due to their high credit standing.

Subsequent to the end of the fiscal year, the Company entered into a third interest rate swap with a Canadian chartered bank with a notional amount of $10.0 million. This swap matures in 2007 and fixes the rate of interest at 5.6% plus a bank margin.

Interest expense on long-term debt for 2001 and 2000 amounted to $5.7 million (including net swap costs of $0.3 million) and $6.3 million (including net swap costs of $0.2 million) respectively.

The amount of principal payable over each of the next five years and thereafter is as follows:

	($000)
2002	570
2003	5,272
2004	9,536
2005	9,433
2006	58,762
2007 and thereafter	13,765
	97,338

9. DEFERRED REVENUE

Deferred revenue is comprised of:

($000)	2001	2000
Deferred pre-need cemetery revenue	257,941	246,754
Deferred pre-need funeral revenue	236,788	220,558
Deferred obtaining costs	(47,136)	(43,511)
	447,593	423,801

10. SHARE CAPITAL

(a) Authorized:

Unlimited number of Preferred Shares
Unlimited number of Class A Voting Shares
Unlimited number of Class B Non-Voting Shares

(b) Issued:

($000)		2001	2000
2,525,497	Class A Shares	1,734	1,734
8,069,746	Class B Shares	70,765	70,765
10,595,243		72,499	72,499

The Class A and Class B shares have identical rights and privileges, except that the Class A shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A shares from each holder in Ontario, each Class B share is convertible into one Class A share.

(c) Share purchase options:

The Company has the following options outstanding for the purchase of Class B shares:

Number of Shares	Exercise Price	Expiry	Exercise Date
112,300	$19.25	June 2, 2005	exercisable currently
45,000	$29.36	January 29, 2007	30,000 exercisable currently 15,000 exercisable January 29, 2002
131,300	$23.50	December 17, 2008	20% on the first anniversary (December 17, 1998) and 20% in each subsequent year on the anniversary date until the fifth anniversary

No options were exercised in 2001. In 2000, certain options were exercised and 6,000 Class B shares were issued for cash proceeds of $45,000. During the year, 2,000 (2000 – 1,200) options were cancelled.

11. INCOME TAXES

The Company's income tax expense for the years ended October 31 consists of the following:

($000)	2001	2000
Current tax expense	7,182	7,910
Future income tax expense (benefit) relating to the origination and reversal of temporary differences	1,111	644
Future income tax expense (benefit) resulting from reduction in tax rate	1,857	306
Income tax expense	10,150	8,860

The reconciliation of the Company's effective income tax rate follows:

	2001	2000
	%	%
Combined basic federal and provincial income tax rate	43.5	44.8
Increase (decrease) in the basic tax rate resulting from:		
Effect on opening future taxes of reduction in tax rate	9.2	2.0
Non-deductible amortization of excess of acquisition cost over book value	3.7	5.0
Large corporations tax	3.8	3.8
Other items	(1.7)	1.2
Effective income tax rate	58.5	56.8

The significant components of future income taxes are deductible/taxable temporary differences amounting to approximately $11.0 million (2000 – $13.9 million) arising from: pre-need cemetery and funeral trust income whereby certain provincial jurisdictions have permitted or currently permit the withdrawal of earned income prior to the delivery of the merchandise and services; reserves claimed for amounts received or to be received for the future delivery of certain cemetery merchandise; and the excess of share acquisition costs over book value.

Of the $7.4 million of income taxes on deposit, $6.3 million relates to reassessments by various income tax authorities with respect to reserves claimed for the sale of interment rights. The Company is contesting these reassessments and previously paid an estimate of the taxes and interest relating thereto to reduce its exposure to non-deductible interest and penalties in the event it is unsuccessful. The outcome of this dispute is not presently determinable. The remainder of the income taxes on deposit of $1.1 million relates to the remaining balance outstanding in respect of reassessments by various income tax authorities regarding reserves claimed in previous years for amounts received for the future delivery of merchandise. This balance will be refunded on the resolution of the interment rights issue.

Should it be completely unsuccessful in defending its position on interment rights, the Company would record $3.1 million as a charge to earnings, relating primarily to the accumulated interest up to the date the deposits were made, a $3.2 million reduction of future income taxes and a $6.3 million reduction of income taxes on deposit.

12. OPERATING LEASE COMMITMENTS

The Company is committed to payments of approximately $4.2 million under operating leases for premises and equipment. The minimum annual payments over the next five years are as follows:

	($000)
2002	2,056
2003	1,254
2004	672
2005	213
2006	18
	4,213

13. EARNINGS PER SHARE

Earnings per share amounts have been calculated using the weighted average number of shares outstanding during the year of 10,595,243 (2000 – 10,594,046).

There were no dilutive options outstanding during the current and prior year.

14. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

($000)	2001	2000
Accounts and income taxes receivable	1,488	3,966
Merchandise inventories	(612)	821
Pre-need receivables	(35,653)	(32,951)
Accounts payable and accrued liabilities	1,486	5,468
Income taxes payable	(681)	(1,820)
Deferred revenue	24,019	9,296
Provision for future delivery	-	3,082
Other changes	1,264	822
Net change as a result of the implementation of SAB 101[1]	-	6,665
	(8,689)	(4,651)

[1] *Adjustment required since fiscal 1999 was not restated for the impact of SAB 101.*

15. SEGMENT DISCLOSURE

The Company has three reportable segments: cemetery, funeral and corporate. The cemetery segment sells cemetery merchandise and services. The funeral segment sells funeral merchandise and services. The corporate segment's responsibilities include strategy development, human resource management, capital investment decisions and performance monitoring of the cemetery and funeral operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on earnings from operations.

The Company's reportable segments are strategic business units that offer different products and services. The nature of these products and services overlap in some instances in the cemetery and funeral segments. However, these segments are managed separately and have different regulatory requirements.

All of the Company's revenues are derived in Canada and all of the Company's capital assets and goodwill are located in Canada.

Industry segments

	Cemetery		Funeral		Corporate		Consolidated	
($000)	2001	2000	2001	2000	2001	2000	2001	2000
Sales	76,404	75,109	79,866	74,932	517	604	156,787	150,645
Investment income	7,115	6,522	4,154	2,646	454	196	11,723	9,364
Revenue	83,519	81,631	84,020	77,578	971	800	168,510	160,009
Interest expense	-	-	-	-	5,671	6,256	5,671	6,256
Depreciation and amortization	2,323	2,166	5,212	5,130	590	860	8,125	8,156
Earnings (loss) from operations before other income (expenses)	10,604	11,334	24,583	20,592	(11,114)	(10,702)	24,073	21,224
Other income (expenses)	(553)	59	(506)	99	-	480	(1,059)	638
Earnings from operations	10,051	11,393	24,077	20,691	(11,114)	(10,222)	23,014	21,862
Identifiable assets	270,981	258,410	383,457	371,403	30,713	26,406	685,151	656,219
Capital expenditures	2,329	2,148	2,389	6,421	1,680	788	6,398	9,357
Capital expenditures, crypt and niche additions and new garden development	5,212	5,499	2,389	6,421	1,680	788	9,281	12,708
Current year total pre-need sales(1)	55,623	52,685	37,910	31,860	-	-	93,533	84,545

(1) Current year total pre-need sales represents pre-need cemetery and funeral contracts written in the year. Under the provisions of SAB 101, some of these sales are deferred and recognized in revenue when the merchandise is delivered or the service is provided.

16. ACQUISITIONS, DISPOSITIONS AND ASSET IMPAIRMENT

In 2001, the Company disposed of two funeral homes and an apartment building (2000 – three funeral homes and four cemeteries) for net cash proceeds of $0.4 million (2000 – $3.6 million).

In 2001, the Company identified impairment in the carrying value of a parcel of land and a funeral home that was closed and merged with another funeral home during the year. As a result, the Company recorded a provision of $1.0 million.

UNAUDITED QUARTERLY FINANCIAL INFORMATION

($000)	2001 (Restated) Fiscal quarters ended Jan-31	Apr-30	Jul-31	Oct-31	Year Ended Oct-31
Sales	38,549	38,022	39,310	40,906	156,787
Investment income	2,409	2,842	2,870	3,602	11,723
Total revenue	40,958	40,864	42,180	44,508	168,510
Expenses	34,115	34,529	36,733	39,060	144,437
Earnings from operations before other income (expenses)	6,843	6,335	5,447	5,448	24,073
Other income (expenses)	32	(181)	(424)	(486)	(1,059)
Interest expense	1,554	1,471	1,377	1,269	5,671
Earnings before income taxes	5,321	4,683	3,646	3,693	17,343
Income taxes	4,045	2,239	2,101	1,765	10,150
Net earnings for the period	1,276	2,444	1,545	1,928	7,193
Basic earnings per share (1)	$0.12	$0.23	$0.15	$0.18	$0.68
Basic earnings per share excluding other income (expenses)(1)	$0.12	$0.25	$0.19	$0.21	$0.77

($000)	2000 (Restated) Fiscal quarters ended Jan-31	Apr-30	Jul-31	Oct-31	Year Ended Oct-31
Sales	36,764	37,754	37,829	38,298	150,645
Investment income	2,277	2,207	2,247	2,633	9,364
Total revenue	39,041	39,961	40,076	40,931	160,009
Expenses	33,134	33,443	35,868	36,340	138,785
Earnings from operations before other income (expenses)	5,907	6,518	4,208	4,591	21,224
Other income (expenses)	-	-	50	588	638
Interest expense	1,528	1,573	1,575	1,580	6,256
Earnings before income taxes	4,379	4,945	2,683	3,599	15,606
Income taxes	2,486	2,807	1,523	2,044	8,860
Net earnings for the period	1,893	2,138	1,160	1,555	6,746
Basic earnings per share (1)	$0.18	$0.20	$0.11	$0.15	$0.64
Basic earnings per share excluding other income (expenses)(1)	$0.18	$0.20	$0.11	$0.12	$0.61

(1) All earnings per share figures presented are applicable to both Class A and Class B shares. Diluted earnings per share do not differ from basic earnings per share.

FIVE YEAR STATISTICAL REVIEW

YEARS ENDED OCTOBER 31 *($000)*	2001 [1]	2000 [1]	1999	1998	1997
	(52 weeks)	*(52 weeks)*	*(53 weeks)*	*(52 weeks)*	*(52 weeks)*
EARNINGS					
Revenue	168,510	160,009	165,192	151,569	144,293
Earnings from operations before other income (expenses)	24,073	21,224	28,530	27,423	23,836
Other income (expenses)	(1,059)	638	(7,855)	346	-
Earnings before income taxes	17,343	15,606	14,688	24,160	21,543
Net earnings	7,193 [2]	6,746 [2]	3,808 [2]	12,570	11,503
CASH FLOWS					
Provided by (used for)					
Operating activities	14,874	15,777	13,141	14,883	6,694 [3]
Investing activities	(6,568)	(7,665)	(25,471)	(50,376)	(30,059)
Financing activities	(2,576)	(4,847)	14,504	32,529	22,139
FINANCIAL POSITION					
Working capital	37,650	33,332	30,045	13,481	21,356
Pre-need receivables	376,930	341,513	N/A	N/A	N/A
Pre-need funds and merchandise	N/A	N/A	277,968	254,928	214,923
Total assets	685,151	656,219	637,861	602,166	503,939
Long-term debt	97,338	99,172	103,322	86,991	50,268
Shareholders' equity	103,616	97,165	174,664	171,598	159,539
Debt to equity ratio	0.94:1	1.02:1	0.59:1	0.51:1	0.32:1
PER SHARE DATA					
Earnings *($ per share)*					
Class A Voting	0.68 [2]	0.64 [2]	0.36 [2]	1.19	1.09
Class B Non-Voting	0.68 [2]	0.64 [2]	0.36 [2]	1.19	1.09
Cash flow from operating activities *($ per share)*	1.40	1.49	1.24	1.41	0.64 [3]
Weighted average number of shares outstanding *(000)*	10,595	10,594	10,589	10,585	10,515
MAJOR RESOURCES					
Cemeteries	40	40	44	44	44
Crematoria	27	27	26	26	25
Funeral homes [4]	92	95	96	94	84
Care funds *($000)*	106,379	99,451	92,332	85,443	78,211

(1) The 2001 and 2000 figures have been restated and presented using the Company's new revenue recognition policies as a result of the implementation of SAB 101. Years prior to 2000 have not been restated. The adjustments made as a result of SAB 101 reduced 2001 net earnings and earnings per share by $14.7 million and $1.39 respectively and 2000 net earnings and earnings per share by $6.7 million and $0.63 respectively.

(2) Net earnings in 2001 excluding the after-tax effect of other income (expenses) were $8.2 million or $0.77 earnings per share (2000 – $6.5 million or $0.61 earnings per share and 1999 – $11.5 million or $1.08 earnings per share).

(3) Cash flow from operating activities in 1997 was net of a $6.0 million payment on deposit of prior years' income taxes and interest under possible reassessment, amounting to $0.57 per share.

(4) Arbor wholly owns 87 of the 92 funeral homes and has interests ranging from 40% to 48% in the remainder.

COMPANY INFORMATION

DIRECTORS

Daniel J. Scanlan,
Chairman of Arbor Memorial Services Inc., Toronto

Richard D. Innes,
President and Chief Executive Officer of Arbor Memorial Services Inc., Toronto

Joseph M. Scanlan,
Vice-Chairman & Senior Vice-President, Sales of Arbor Memorial Services Inc., Toronto

Paul F. Scanlan,
Regional Sales Director of Arbor Memorial Services Inc., Toronto

Robert D. Watson,
Corporate Director and Partner with Watson Goepel Maledy, Vancouver

Philip L. Wilson,
Corporate Director, Toronto

Joseph M. Messmer,
Corporate Director, Toronto (1)

Roger A. Hall,
Corporate Director, Toronto

John C. Clark,
Corporate Director and President and Chief Executive Officer of J.C. Clark Limited

Robert E. Rose,
Corporate Director and Partner, Clarke Henning LLP (2)

Brian L. Zenkovich,
Corporate Director and Chief Executive Officer and Secretary of Winzen International Inc. (2)

(1) Not standing for re-election.
(2) Proposed corporate director.

HONORARY DIRECTOR

Lord Shaughnessy,
London, England

OFFICERS AND CORPORATE MANAGEMENT

Daniel J. Scanlan,
Chairman

Richard D. Innes,
President and Chief Executive Officer

Gary R. Carmichael,
Vice-President, Government and Corporate Affairs

Mike Ayres,
Director of Information Services

Iain Robb,
Corporate Secretary and Partner with Gowling Lafleur Henderson LLP, Toronto

Gillian Mossington,
Assistant Secretary

Sales/Marketing

Joseph M. Scanlan,
Vice-Chairman and Senior Vice-President, Sales

Michael J. Scanlan,
Vice-President, Marketing

Monica M. Flanagan,
Director of Administrative Services

Funeral Service

John S. Earle,
Senior Vice-President, Funeral Service

Jeffrey S. Scott,
President, Trillium Funeral Service Corporation

John S. Doney,
Corporate Development

Human Resources

Michelle A. Gibbons,
Vice-President, Human Resources

Cemetery Operations

Gary D. Rogerson,
Vice-President, Operations

Construction & Development

Stephen J. Rupert,
Vice-President, Construction and Development

Finance/Trust Administration

Brian D. Snowdon,
Vice-President and Chief Financial Officer

Laurel L. Ancheta,
Director of Finance

Pamela F. Collie,
Director of Trust Accounting

CEMETERY SALES

Robert W. Lang,
Director of Sales, Western Canada

Regional Management

J. Mark Agate,
South Western Ontario

P. Gary Boyce,
Western Canada

Doug Oliver,
Northern Ontario

Howard Hoidas,
Quebec

Charles Duchesnay,
Southeast Central Ontario

Brian G. MacMillan,
South Central Ontario

Leonard Marceau,
South Eastern Ontario

Paul F. Scanlan,
Southern Ontario

Peter Bancroft,
Atlantic Canada

CEMETERY OPERATIONS

Regional Management

William E. Grady,
Eastern Canada

Kenneth Gurney,
Niagara and Thunder Bay

Rodger W. Halden,
Western Ontario

P. Bradley Hunter,
Eastern Ontario

James Risbey,
Alberta and British Columbia

Bruce Slack,
Central/Western Ontario

Terry Bokshowan,
Manitoba and Saskatchewan

CEMETERY ADMINISTRATION

Regional Management

Barb E. Weatherdon,
Quebec, Eastern Ontario and Atlantic

Mary Brandoline,
Western Ontario

Patricia Vieira,
Toronto East

Sylvie A. Furtado,
Toronto West

Kathi S. Mackay,
Saskatchewan, Manitoba and Thunder Bay

Teresa M. Bastin,
Edmonton

Diane E. Vinje,
Calgary and British Columbia

FUNERAL OPERATIONS

Regional Management

Terry A. Eccles,
South Western Ontario

David J. Scanlan,
Western Canada

Douglas A. MacDonald,
Atlantic Canada

Denis Marcoux,
Quebec and Acadia

Jerry Roberts,
Central and Eastern Ontario

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Deloitte & Touche LLP

PRINCIPAL BANKERS

TD Bank Financial Group

Bank of Montreal

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
416-981-9633 or 1-800-663-9097
caregistryinfo@computershare.com

PRINCIPAL TRUSTEES OF FUNDS

TD Canada Trust Company

The Bank of Nova Scotia Trust Company

STOCK INFORMATION

The Company's shares have been listed on the Toronto Stock Exchange since 1973. Information concerning its shares follows:

Class of Shares	A(Voting)	B(Non-Voting)
Stock Symbol	ABO.A	ABO.B
Cusip#	038916-10-2	038916-20-1
Market Price (at October 31):		
2001	$12.00	$12.50
2000	5.55	7.00
1999	12.00	12.10
1998	18.00	18.50
1997	25.50	25.50

ANNUAL MEETING

The annual meeting of Arbor Memorial Services Inc. will be held in the Brulé Room, The Old Mill, 21 Old Mill Road, Toronto, Ontario, on Thursday February 21, 2002 at 10:00 a.m. (Toronto time).